

Two
**KIENA GOLD MINES
LIMITED**

**ANNUAL REPORT
1977**

KIENA GOLD MINES LIMITED

Executive Office

P.O. Box 40
Commerce Court West
Toronto, Ontario M5L 1B4

Officers

G. P. MITCHELL
President
T. F. PUGSLEY
Vice-President
W. R. ROBERTSON
Secretary
N. H. WITHERELL
Treasurer
W. F. AVERY
Controller

Directors

*P.-E. AUGER
J. M. DONOVAN
*J.-H. GAGNÉ
J. D. KRANE
G. P. MITCHELL
T. F. PUGSLEY
*J. R. SMITH
*Members of the Audit Committee.

Transfer Agent and Registrar

CROWN TRUST COMPANY
302 Bay Street, Toronto
393 St. James St. W., Montreal
Common Shares Listed
Montreal Stock Exchange

Auditors

CLARKSON, GORDON & Co.
Toronto

Annual Meeting

York Room
Royal York Hotel
Toronto
June 30, 1978
11:00 a.m.
(Toronto Time)

REPORT OF THE DIRECTORS

To the Shareholders:

We hereby submit the financial statements of your Company for the year ended December 31, 1977 and the Auditors' Report thereon.

Economic and technical parameters affecting development of your Company's mineral deposits are being re-examined and recently established record gold prices offer some encouragement. It should be noted, however, that the high gold prices are accompanied by monetary instability in North America and continuing inflation. While various alternatives for development are being studied, we have no proposals to present to the shareholders at this time.

No exploration work was carried out on the property during the year.

The Company's properties located in Dubuisson Township, Province of Quebec, were maintained in good standing and the plant and equipment located on the property are being kept on a care and maintenance basis.

On Behalf of the Board,

Toronto, Ontario,
June 2, 1978.

G. P. MITCHELL,
President.

AUDITORS' REPORT

To the Shareholders of
Kiena Gold Mines Limited:

We have examined the balance sheet of Kiena Gold Mines Limited as at December 31, 1977 and the statements of deferred exploration, development and other expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 14, 1978.

CLARKSON, GORDON & Co.
Chartered Accountants

KIENA GOLD MINES LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET — DECEMBER 31, 1977

ASSETS

	1977	1976
Current assets:		
Cash and temporary investments, at cost which approximates market value	\$ 11,558	\$ 10,875
Accrued interest receivable	47	43
	<u>11,605</u>	<u>10,918</u>
Fixed assets, at cost (note 1):		
Buildings, machinery and equipment	144,486	143,298
Mining claims and properties	329,332	329,332
	<u>473,818</u>	<u>472,630</u>
Other:		
Deferred exploration, development and other expenditures (statement 2) (notes 1 and 2)	3,136,850	3,108,351
Deposit for electric power	12,423	12,464
	<u>3,149,273</u>	<u>3,120,815</u>
	<u>\$3,634,696</u>	<u>\$3,604,363</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 1,403	\$ 516
Long-term liabilities:		
Due to parent company, Falconbridge Nickel Mines Limited (note 3)	134,440	104,994
6% income debentures, due December 31, 1982-1983 (note 4)	250,000	250,000
	<u>384,440</u>	<u>354,994</u>
Shareholders' equity:		
Share capital (note 4) —		
Authorized:		
2,500,000 6% non-voting preference shares with a par value of \$1 each (cumulative until December 31, 1968), redeemable at par		
5,000,000 common shares of no par value		
Issued:		
2,467,459 preference shares (note 4)	2,467,459	2,467,459
4,876,848 common shares	895,786	895,786
	<u>3,363,245</u>	<u>3,363,245</u>
Deficit (unchanged during the year)	114,392	114,392
	<u>3,248,853</u>	<u>3,248,853</u>
	<u>\$3,634,696</u>	<u>\$3,604,363</u>

On behalf of the Board:

G. P. MITCHELL, Director.

J. M. DONOVAN, Director.

(See notes to financial statements)

KIENA GOLD MINES LIMITED

STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT AND OTHER EXPENDITURES

For the year ended December 31, 1977

	1977	1976
Balance, beginning of year	\$3,108,351	\$3,081,587
Expenditures during the year:		
General expense at the property	15,417	14,879
Administrative and corporate expenses	13,847	12,798
	29,264	27,677
Deduct interest income	765	913
	28,499	26,764
Balance, end of year	\$3,136,850	\$3,108,351

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1977

Source of working capital:		
Interest income	\$ 765	\$ 913
Refund of deposit	41	65
Advance from Falconbridge Nickel Mines Limited	29,446	26,682
	30,252	27,660
Application of working capital:		
Deferred exploration, development and other expenditures	29,264	27,677
Expenditures on buildings and equipment	1,188	
	30,452	27,677
Decrease in working capital during the year	200	17
Working capital, beginning of year	10,402	10,419
Working capital, end of year	\$ 10,202	\$ 10,402

(See notes to financial statements)

NOTES TO FINANCIAL STATEMENTS

December 31, 1977

- Exploration, development and other expenditures amounting to \$3,136,850 at December 31, 1977 relating to a non-producing property have been deferred until such time as the mining property is brought into production or abandoned. Upon abandonment, these costs would be written off. The recovery of these costs, together with the cost of the related fixed assets, is dependent upon the success of future operations. The company continues to maintain the assets on a care and maintenance basis.
The company is reviewing, on an ongoing basis, the feasibility of bringing the property into commercial production but has postponed any decision pending developments in bullion markets and further analyses of possible production alternatives.
If the property is brought into commercial production any additional development work would be expensed as incurred, except for large development programs, in which case such costs would be deferred. Deferred costs relating to the property would be amortized over the expected life of the mine.
- Exploration, development and other expenditures include a total of \$2,411,180 in respect of which the tax benefits are claimable by other companies.
- The advance from Falconbridge Nickel Mines Limited has been classified as long-term debt as Falconbridge has agreed not to call for repayment prior to January 1, 1979.
- At December 31, 1965 arrears of dividends on the preference shares amounted to \$163,796 and interest on income debentures which is cumulative but payable only out of profits, amounted to \$38,605. All of these securities are owned by Falconbridge Nickel Mines Limited and that company has agreed to waive its rights to receive the benefit of any further accruals of interest or dividends on these securities until a decision has been reached to place the company's property in production or to reorganize its capital. All preference shares outstanding must be redeemed before any dividends are paid on the common shares.
- Remuneration of senior officers (as defined under The Business Corporations Act 1970, Ontario) amounted to \$8,424 in 1977 (\$8,773 in 1976). Directors' fees amounted to \$3,170 in 1977 (\$3,500 in 1976).